

## Thailand: Conditions are ripe for more easing

Manufacturing data points to a continued slowdown in growth in the fourth quarter, while the hit to tourism from the coronavirus is clouding the outlook for 2020. We believe conditions are ripe for more rate cuts from the Bank of Thailand and there could be one as early as next week



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# -4.3%

December manufacturing growth

Year-on-year

Better than expected

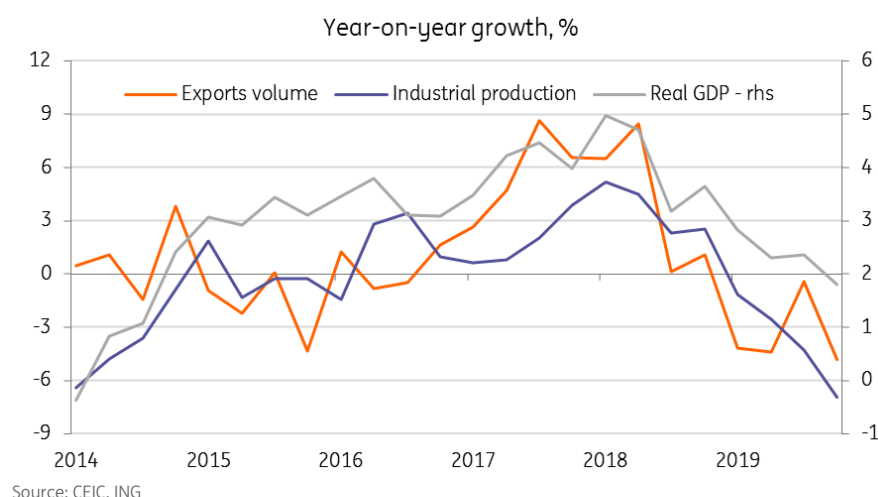
### Economy ends 2019 on weak note

Manufacturing output in Thailand fell for an eighth month in December, dropping 4.3% year-on-year. This was better than the median consensus estimate, which called for a 7.0% fall and also an

improvement over the 8.3% drop in November. However, the recent improvement has been more a reflection of the favourable base effect than any actual recovery. As the graph below shows, the fourth quarter of 2019 was still the worst quarter for both exports and manufacturing in several years. And this dragged GDP growth lower, too.

**We are revising our estimate of fourth quarter GDP growth to 1.8% from 2.0% earlier (2.4% in the third quarter) and our full-year growth forecast to 2.3% from 2.4%. This is more bearish than the Finance Ministry's 2.5% growth estimate, which they cut today from 2.8%.**

## Steady on downward path



## And 2020 begins on weaker note

The adverse effect of the coronavirus on the Thai tourism industry has dampened the prospects of any economic recovery this year. Tourism makes up a fifth of the economy and visitors from China account for about a quarter of total tourism receipts. It's no surprise that the Finance Ministry also slashed its 2020 growth forecast to 2.8% from 3.3% today. This is still optimistic, in our view.

The global spread of the coronavirus may nip the export recovery in the bud, add to this the hit to tourism and you have a recipe for a steady decline in the GDP growth path, at least in the first half of 2020. This means it will take a significant bounce back in the second half of the year just to keep the annual growth rate close to its pace in 2019. **We are reviewing our 3% growth forecast for 2020 for a possible downgrade. It could see a significant dent.**

## This calls for greater policy support

Finance Minister Uttama Savanayana has signalled more measures to help the tourism sector and to boost domestic consumption. However, given the delayed passage of the budget bill for fiscal year 2020 (already started in October 2019) hopes for any additional and timely fiscal support could be misplaced.

What about monetary policy support? There may not be a lot of easing room for the Bank of Thailand after two 25 basis point cuts in 2019, which have pushed the policy rate to an all-time low of 1.25%, while inflation is running a little under 1% (0.9% in December). Even so, the current circumstances demand easier policy and a rate cut (or two) wouldn't hurt. It would also help to

prevent any appreciation in the currency and thus offer support to exports and tourism.

We think, the earlier the cut, the better, allowing for a boost to sentiment. This puts the next BoT policy meeting, which is just a week from today (5 February), firmly in the spotlight. We don't rule out a 25bp rate cut at this meeting, a change from our earlier call of stable policy this year.

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